

# Hartalega Holdings

## Stock Replenishing Cautious Optimism

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HARTA is of the opinion that tariffs will regulate the glove industry and cushion any unfair price dumping. As US glove inventory drops to low levels with frontloaded gloves depleting, we foresee order replenishment will be needed soon that could translate to a sudden orders uptick. Plans are already underway to optimise its cost structure to compete more competitively via automation and artificial intelligence initiatives. We keep out earnings forecast and TP of RM3.20. Reiterate our OUTPERFORM call.

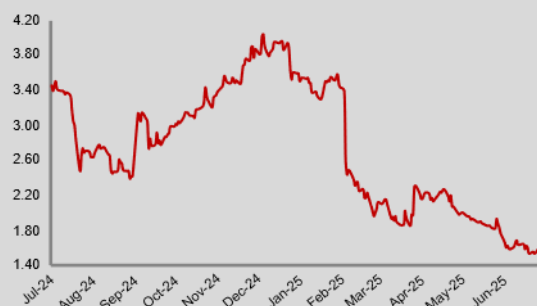
The key takeaways from a meeting yesterday are as follows:

1. The group is of the view that the presently evolving tariffs actions and trade dynamics may limit near-term visibility. As US glove inventory drops to low levels with frontloaded gloves depleting, we foresee order replenishment will be needed soon that could translate to a sudden orders uptick. It specifically highlighted that current trade tariff imposition on Chinese glove makers will benefit Malaysian glove makers. It is presently facing a mixed response from customers. HARTA is seeing increasing orders from customers with low inventory levels. However, some customers are holding back, waiting for tariffs visibility. The Group is optimistic that the strong growth momentum will sustain, as customers continue to replenish their depleting glove stockpiles.
2. The group is of the opinion that tariffs will regulate the glove industry and cushion any unfair price dumping which is positive to Malaysian glove makers. Factoring in the 80%-130% tariffs imposed on China medical gloves in 2025-26, the pricing gap between Malaysia and China producers for US exports still favours the former i.e. 10-15% cheaper. The other major players in the medical grade gloves are Thailand and Indonesia of which US tariffs are at 36% and 32%, respectively. However, the reciprocal tariff on Vietnam has been reduced to 20% (previously 40%), makes them slightly cheaper compared to Malaysian glove makers. Nevertheless, Vietnam's global market share in the medical grade glove is <2% of global supply. Note, HARTA sales to the US presently accounts for 70% of volume sales (historically average 50%).
3. It is planning to streamline SKUs to improve production efficiency and reduce downtime from frequent changeovers in production. Typically, the higher the SKUs, the more product variations of which some may have less demand and hence cost more to maintain. While this can offer customers more choices, it can also lead to some variations having lower demand, which results in higher maintenance costs due to the need to manage and store a larger inventory with some slow-moving items.
4. The group highlighted that the indicative price from a certain Chinese glove maker plant in Indonesia of USD16-17 per 1,000 pieces is close to Malaysian glove makers pricing of USD17-18 per 1,000 pieces.
5. To further improve its cost structure, the group has undertaken operational efficiencies and continue advancing automation and digitalisation initiatives across its operations. It expects the efforts to bear fruits i.e. improve production yield in CY26. Specifically, it is undergoing further automation which incorporates artificial intelligence (AIs) in all its lines capable of detecting glove defects

## OUTPERFORM ↔

**Price:** RM1.56  
**Target Price:** RM3.20 ↔

### Share Price Performance



KLCI 1,537.51  
YTD KLCI chg -6.4%  
YTD stock price chg -60.5%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	HART MK
Market Cap (RM m)	5,324.7
Shares Outstanding	3,413.3
52-week range (H)	4.00
52-week range (L)	1.51
3-mth avg. daily vol.	142,600,000
Free Float	44%
Beta	0.9

### Major Shareholders

Hartalega Industries	34.4%
Budi Tenggara Sdn Bhd	8.6%
KWAP	5.4%

### Summary Earnings Table

FY Mar (RM m)	2025A	2026F	2027F
Turnover	2585.6	3221.8	3414.8
PBT/ (LBT)	47.9	203.6	250.3
<b>Net Profit /(Loss)</b>	<b>74.5</b>	<b>155.6</b>	<b>191.1</b>
Consensus (NP)	-	150	206
Earnings Revision	-	-	-
EPS (sen)	2.2	4.6	5.6
EPS Growth (%)	485.6	108.8	22.8
PER (x)	71.2	34.1	24.4
NDPS (sen)	11.8	2.7	3.4
BVPS (RM)	1.26	1.28	1.30
PBV (x)	1.7	1.7	1.6
Net Gearing (%)	Net	Net	Net
	Cash	Cash	Cash
Dividend Yield (%)	5.5	1.8	2.5

15 July 2025

via digital imaging with a 0.3% reject rate and a stripping machine which is 5x faster. Thereafter, the initiative will result in further reduction in workers from an estimated 7,500 presently to 7,000 workers. For illustration purposes, we gather a 1% EBITDA margin is possible and an improvement will bumped up our FY26F net profit by 11%.

To recap, in its previous analysts' briefing, the group is cautiously expecting 1QFY26 sales volumes to rise 1%-5% QoQ or ranging between 6b to 6.6b pieces as they see customers adopting a wait and see approach. It expects customers now relying on inventory as opposed to re-stocking in the current environment of fluid news concerning tariffs. As an indication, May shipments spiked up to 2.3b pieces but moderated back to 2b pieces in Jun. HARTA expects the inventory replenishment to return in 2HFY26 with order visibility starting from June 2025.

It has guided for ASP to be slightly lower in 1QFY26 (FYE March) compared to USD22 per 1,000 pieces in 4QFY25 (vs. our FY26F assumption of USD21 per 1,000 pieces) due to the softening of input raw material and amidst pressure from some buyers. Consequently, the group expect temporary margin pressure due to weakening of USD against MYR. Beyond 1QFY26, for any persistent weakness of MYR against the USD, the group will pass on the forex impact via higher ASPs but stopped short of giving guidance.

**Valuations.** It is trading at deep value, pricing at close to worst of the down-cycle, with orders flowing back albeit at a slower pace. Malaysian glove makers are trading at deep value levels, pricing them close to the worst of the down-cycle (see Exhibit 1). The glove sector under our coverage is currently trading at 2.0 SD below its historical 1-year forward average. While earnings may remain weak in the near term, structural demand and supply rationalisation offers long-term upside. Anecdotal evidence suggests that despite the impact of tariff-related disruptions, there is only so long customers can hold off making purchases. If past history is of any guide, based on previous down-cycles, Malaysian glove makers' stock prices will start to re-rate once the ASP concerns subside, and demand starts flowing back to Malaysian glover makers.

Our TP is RM3.20 based on 2.5x FY26F BVPS. HARTA, which has a high US sales volume that accounts for between 70% of sales, would have the most to gain. Even so, we believe that in terms of PBV valuation, its share price is trading at a level which commensurate with pre-tariff imposition. For illustration purposes, before the US tariffs imposition on China glove makers in Sept 2024, HARTA was trading at between 1.8x to 2.0x PBV. Assuming 2x FY26F BVSP, the stock should trade at RM2.50. If we attach 32x PER at 2.0 SD above its 6-year average 1-year historical pre-COVID mean, the stock would trade at RM2.05. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 3). Reiterate **OUTPERFORM**.

**Key risks to our recommendation include:** (i) certain Chinese glove giants end predatory pricing practices (i.e. selling below cost over an extended period of time to eliminate competitors), leading to a strong earnings rebound for the sector, (ii) stronger-than-expected growth in demand for gloves driven by rising hygiene standards and health awareness globally, and (iii) further changes in tariffs which have happened before; recall that post the implementation of the initial 15% tariff on Chinese glove imports, this figure was lowered to 7.5% during phase first US-China trade agreement back in 2019.

15 July 2025

### Income Statement

FY Mar (RM m)	2023A	2024A	2025A	2026F	2027F
Revenue	2407.8	1837.6	2585.6	3221.8	3414.8
EBITDA	-288.9	177.6	200.7	386.6	443.9
Depreciation	-151.9	-163.0	-191.8	-223.9	-230.2
PBT	-190.7	38.7	47.9	203.6	250.3
Taxation	-29.8	-18.7	26.5	-48.2	-59.4
MI	-2.4	-7.3	0.1	0.2	0.2
Net Profit	-218.0	12.7	74.5	155.6	191.1

### Balance Sheet

FY Mar (RM m)	2023A	2024A	2025A	2026F	2027F
PPE	1942.8	1901.0	2573.1	2649.2	2719.0
Intangibles	42.6	45.2	38.3	38.3	38.3
Other FA	959.3	1031.2	404.4	404.4	404.4
Inventories	253.5	385.7	341.2	425.2	450.6
Receivables	324.1	386.3	380.3	473.9	502.3
Other assets	80.1	80.5	79.6	79.6	79.6
Cash	1724.5	1427.4	923.1	1037.5	1257.0
Total Assets	5326.9	5257.3	4740.1	5108.1	5451.3
Payables	88.6	63.1	80.9	100.9	106.9
ST borrowings	87.3	62.3	4.1	54.1	104.1
Other ST Liability	176.5	259.1	154.9	190.8	201.7
LT Borrowings	62.3	4.3	0.0	200.0	400.0
Other LT Liability	235.5	224.0	181.3	181.3	181.3
Minorities Int.	19.6	-3.4	-3.3	-3.5	-3.7
Net Assets	4657.1	4648.0	4322.3	4384.5	4461.0
Share capital	1692.1	1692.1	1692.1	1692.1	1692.1
Reserves	2965.1	2956.0	2630.2	2692.4	2768.9
Equity	4657.2	4648.0	4322.3	4384.5	4460.9

### Cashflow Statement

FY Mar (RM m)	2023A	2024A	2025A	2026F	2027F
Operating CF	(38.1)	(55.2)	113.8	257.7	384.2
Investing CF	(262.7)	(106.7)	(140.5)	(300.0)	(300.0)
Financing CF	(351.5)	(141.6)	(465.6)	156.7	135.4
Change In Cash	(652.3)	(303.5)	(492.2)	114.3	219.5

Source: Kenanga Research, Bursa Malaysia

### Financial Data & Ratios

FY Mar	2023A	2024A	2025A	2026F	2027F
<b>Growth</b>					
Turnover	-69.5%	-23.7%	40.7%	24.6%	6.0%
EBITDA	-106.9%	-161.5%	13.0%	92.6%	14.8%
Operating Profit	-110.9%	-110.5%	8.0%	225.4%	31.4%
PBT	-104.1%	-120.3%	23.7%	324.9%	22.9%
Core Net Profit	-106.8%	-105.8%	485.6%	108.8%	22.8%
<b>Profitability</b>					
EBITDA Margin	-12.0%	9.7%	7.8%	12.0%	13.0%
Operating Margin	-18.3%	2.5%	1.9%	5.0%	6.3%
PBT Margin	-7.9%	2.1%	1.9%	6.3%	7.3%
Core Net Margin	-9.1%	0.7%	2.9%	4.8%	5.6%
Effective Tax Rate	24.0%	6.0%	24.0%	24.0%	24.0%
ROA	-4.1%	0.2%	1.6%	3.0%	3.5%
ROE	-4.7%	0.3%	1.7%	3.5%	4.3%
<b>Valuations</b>					
EPS (sen)	-6.4	0.4	2.2	4.6	5.6
NDPS	0.0	0.4	11.8	2.7	3.4
BVPS (RM)	1.36	1.35	1.26	1.28	1.30
PER (x)	-24.4	416.9	71.2	34.1	24.4
Net div (%)	0.0	0.2	7.5	1.8	2.5
P/BV (x)	1.1	1.2	1.2	1.2	1.2

15 July 2025

## Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
HARTALEGA HOLDINGS BHD	OP	1.56	3.20	105.1%	5,325	Y	03/2025	4.6	5.6	109%	23%	34.1	27.8	1.2	3.6%	3.0	1.9%
KOSSAN RUBBER INDUSTRIES	OP	1.44	2.70	87.5%	3,651	Y	12/2024	6.4	6.4	36%	1%	22.6	22.4	1.0	4.4%	4.0	2.8%
SUPERMAX CORP BHD	MP	0.640	0.700	9.4%	1,957	N	06/2025	(3.0)	1.0	-157%	-66%	N.A.	61.4	0.5	-2.2%	0.0	0.0%
TOP GLOVE CORP BHD	OP	0.700	0.930	32.9%	5,613	Y	08/2024	0.9	1.6	-53%	80%	76.9	42.7	1.3	1.6%	0.5	0.7%

Source: Company, Bloomberg, Kenanga Research

## Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	☆		
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★	☆	
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	☆		
SPECIFIC	Product Quality & Safety	★	★	★		
	Effluent/Waste Management	★	★	★		
	Automation & Innovation	★	★	★	☆	
	Energy Efficiency	★	★	★	☆	
	Supply Chain Management	★	★	★		
	Legal & Regulatory Compliance	★				
OVERALL		★	★	★		

☆ denotes half-star  
 ★ -10% discount to TP  
 ★★ -5% discount to TP  
 ★★★ TP unchanged  
 ★★★★ +5% premium to TP  
 ★★★★★ +10% premium to TP

15 July 2025

**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%.
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%.
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%.
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%.
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%.

***\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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